# UK government considers reforms to smooth small business rate increases and revitalise high streets



The UK Government is seeking to address what it describes as ‘cliff edges’ in business rates, where small firms experience sudden and substantial increases in their bills. This issue arises because of the current business rates relief system, which provides a full discount for properties with a rateable value of up to £12,000, tapering off to zero at £15,000. Crucially, relief is lost entirely if a business opens a second site, as the relief applies only to a single property. The Treasury is now exploring options to remove this ‘single property requirement’ to encourage expansion among small businesses by ensuring that costs rise more gradually, avoiding steep jumps in liabilities.

The Government’s announcement follows ongoing pressure from various business sectors, particularly large retailers who are concerned about proposed rate hikes affecting around 4,000 stores. These retailers argue that ‘anchor’ stores, which draw shoppers to town centres, could be disproportionately impacted. Labour has also weighed in, considering a more graduated rate system analogous to income tax, where increases are smoother rather than abrupt. An update on reforms is expected in November.

In parallel with these changes focused on small business relief, the Government is poised to implement broader reforms that permanently lower business rates for retail, hospitality, and leisure properties starting in 2026. This initiative is part of a wider strategy to rejuvenate high streets in the face of competition from online retail platforms. The tax cuts for these sectors will be financed by increasing rates for the top 1% of high-value properties, including large distribution warehouses frequently used by online retailers. Until these changes take effect, around 250,000 eligible businesses in retail, hospitality, and leisure are receiving a temporary 40% relief on their business rates, capped at £110,000 per business. Finance Minister Rachel Reeves reaffirmed this commitment in late 2024, emphasizing the need for fairer tax conditions that support physical stores.

The attention on small and medium-sized enterprises (SMEs) aligns with broader government policies aiming to bolster this sector’s contribution to the economy. Chancellor Rishi Sunak has highlighted the importance of reducing business taxes and increasing support for SMEs, including initiatives such as the ‘Help to Grow’ schemes which promote digital adoption and management training. Employment Allowance enhancements also provide tax relief for SMEs to reduce their National Insurance Contributions, further easing financial pressures on small businesses aiming to expand.

Nonetheless, the business rates system remains contentious. Critics point to the risk of sharp increases when new property valuations come into effect, which some describe as a ‘ticking time bomb’ for small firms. Although the Government has set up a £3.6 billion transitional fund to soften the impact of large rate hikes, there are concerns that the valuation process is flawed and that further emergency support may be necessary. Moreover, similar discussions are taking place in devolved administrations such as Wales, where proposals consider cutting business rates for smaller retail shops to boost high street revitalisation and competition with online stores, while adjusting rates for larger properties.

Additionally, the Government is looking into modifying procurement rules to favour local SMEs over large national suppliers. These measures include requirements for companies winning state contracts to advertise job vacancies locally and set departmental targets to increase SME participation in public spending. This reflects a broader push to encourage local economic growth and job creation beyond taxation reforms.

Together, these intersecting policies highlight a governmental focus on recalibrating the business rates landscape to support small businesses’ growth, high street vitality, and local economies, while addressing the competitive pressures posed by online retail and large property owners.

### 📌 Reference Map:

* Paragraph 1 – [[1]](https://www.dailymail.co.uk/money/markets/article-15085775/Government-proposes-help-small-firms-cutting-cliff-edges-business-rates.html?ns_mchannel=rss&ns_campaign=1490&ito=1490)
* Paragraph 2 – [[1]](https://www.dailymail.co.uk/money/markets/article-15085775/Government-proposes-help-small-firms-cutting-cliff-edges-business-rates.html?ns_mchannel=rss&ns_campaign=1490&ito=1490)
* Paragraph 3 – [[2]](https://www.gov.uk/government/news/next-steps-set-out-to-permanently-cut-business-rates-for-the-high-street), [[4]](https://www.reuters.com/world/uk/uks-reeves-extends-englands-business-rates-relief-retail-hospitality-2024-10-30/)
* Paragraph 4 – [[3]](https://www.gov.uk/government/news/chancellor-backs-small-businesses-to-thrive-and-grow)
* Paragraph 5 – [[6]](https://www.bbc.co.uk/news/business-39098801), [[7]](https://www.bbc.co.uk/news/articles/c62vv1nd29no)
* Paragraph 6 – [[5]](https://www.ft.com/content/677aa2db-5a21-4b66-9e2d-da9b55061e86)

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## Bibliography

1. <https://www.dailymail.co.uk/money/markets/article-15085775/Government-proposes-help-small-firms-cutting-cliff-edges-business-rates.html?ns_mchannel=rss&ns_campaign=1490&ito=1490> - Please view link - unable to able to access data
2. <https://www.gov.uk/government/news/next-steps-set-out-to-permanently-cut-business-rates-for-the-high-street> - The UK government has introduced legislation to permanently reduce business rates for retail, hospitality, and leisure properties starting in 2026. This initiative aims to support high streets by lowering tax rates for these sectors. To fund the tax cuts, the government plans to increase rates for the top 1% of high-value properties, such as large distribution warehouses used by online retailers. In the interim, 250,000 retail, hospitality, and leisure properties will receive a 40% relief on their business rates bills, capped at £110,000 per business, to ease the transition to the new system.
3. <https://www.gov.uk/government/news/chancellor-backs-small-businesses-to-thrive-and-grow> - Chancellor Rishi Sunak has highlighted the importance of small businesses to the UK economy and outlined government support measures. These include cuts to employment taxes and business rates, as well as initiatives to help small and medium-sized enterprises (SMEs) invest and grow. The government has increased the Employment Allowance, allowing eligible businesses to reduce their National Insurance Contributions, and introduced the 'Help to Grow' schemes to support digital adoption and management training for SMEs.
4. <https://www.reuters.com/world/uk/uks-reeves-extends-englands-business-rates-relief-retail-hospitality-2024-10-30/> - In October 2024, UK Finance Minister Rachel Reeves committed to reducing business rates for high street stores, including retail, hospitality, and leisure properties, to level the playing field with online retailers. Starting from the 2026-27 fiscal year, lower tax rates will be implemented for these sectors, funded by higher taxes on the most valuable properties, such as large distribution warehouses. Additionally, Reeves extended a relief scheme offering 40% relief on business rates for eligible businesses, capped at £110,000 per business.
5. <https://www.ft.com/content/677aa2db-5a21-4b66-9e2d-da9b55061e86> - The UK government is proposing significant changes to procurement rules to favour local small and medium-sized enterprises (SMEs) over large national suppliers. This initiative aims to stimulate local growth and job creation by mandating that companies winning state contracts advertise vacancies at local job centres. Specific targets will be set for each Whitehall department to increase spending with SMEs, and legal changes are being considered to enable local authorities to prioritise local SMEs in awarding contracts.
6. <https://www.bbc.co.uk/news/business-39098801> - Business rates are described as a 'ticking time bomb' for small companies in England, with many facing significant increases when new valuations take effect. The government has established a £3.6 billion transitional fund to help businesses facing large jumps in rates. However, concerns have been raised that the process has been mishandled, and there are calls for emergency help for small firms to manage the impending rate hikes.
7. <https://www.bbc.co.uk/news/articles/c62vv1nd29no> - The Welsh government is considering cutting business rates for smaller retail shops to help them compete with online retailers and create more vibrant high streets. A consultation has been announced on cutting rates for retail shops paying less than £51,000 in business rates, which is estimated to affect about 13,000 properties. Larger properties with rateable values over £100,000 could be charged slightly more, while public buildings such as hospitals and schools would be protected.